Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY IN RESPONSE TO PUBLIC NOTICE OF DECEMBER 12, 1996

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SUMMARY*

SWBT's responses to the questions posed in the letter attached to the Public Notice are based upon SWBT's actual cost of providing service, and not the proxy cost models proposed in this proceeding. Inasmuch as incumbent LEC networks provide and will undoubtedly continue to be provide the bulk of universal service, actual costs should continue to be used to set support.

Question 1): As and where noted, SWBT has previously supplied actual cost data. No further submission is planned.

Question 2): Actual Texas data responsive to the various categories is provided where applicable and available, with various attachments providing supporting information and explanations on how costs were calculated.

Question 3): As to the criteria set forth in paragraph 277 of the Recommended Decision, actual SWBT wire centers and facilities were used to determine the actual cost of providing universal service. The technology being used for new facilities is the most efficient and reasonable given embedded facilities already in use. SWBT's data encompasses all lines, and a portion of joint and common costs was allocated in accordance with Part 36 and Part 69.

Question 4): The actual costs for all lines are included in the data provided by SWBT, with the aggregate cost divided by total number of lines to derive an average.

Question 5): Attachment E explains how the cost of providing local exchange service was calculated.

Question 6): Inasmuch as SWBT is providing telecommunications services over its

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* The abbreviations used in this Summary are as defined in the main text.

network, universal service can be provided at the actual cost reflected in the SWBT data submitted.

Question 7): Actual cost data reflects any vendor discounts.

Question 8): The SWBT study does not rely directly on the individual network design parameters to determine facilities costs.

Question 9): All SWBT-Texas loops can provide full time (non-traffic sensitive and non-party line service), some of which have basic rate ISDN capability, DSL, and full-duplex DS1.

Question 10): The approach taken in the Hatfield model is unrealistic and unreasonable. It fails to account for the fact that power and telecommunications cable cannot be placed in close proximity due to degradation caused by electrical fields and that the timing of facilities placement varies between utilities. The most traditional method of sharing distribution facilities is through rental agreements between utilities.

Question 11): SWBT-Texas has approximately 800 switching entities identified in the LERG, which are all included in SWBT's actual cost study. Although only 500 individual geographic locations are identified, the difference is primarily due to the fact that the LERG identifies multiple switching entities as having the same location.

Question 12): Both the Hatfield and BCM2 models demonstrate significant differences for lines per wire center when compared to actual line data.

Question 13): The historical relationships between investment and related repair and maintenance expense are the best available source for estimating future costs of repair and maintenance. The most current information on that relationship should be used. Incorporation of

musings on the effect of hypothetical advances or competitive pressures would be highly speculative and unreasonable.

Question 14): SWBT's cost data includes all of the costs necessary to support the proposed definition of universal service.

Question 15): The depreciation rates embodied in SWBT's actual cost data are those prescribed by regulators. The effect of using different depreciation rates could be calculated.

Question 16): Non-plant related expenses such as marketing and customer operations should be included at an appropriate level since such expenses are associated with providing basic local service, and even required from eligible carriers.

Question 17): A single proxy cost model should not be used.

TABLE OF CONTENTS

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	)	
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COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY
IN RESPONSE TO PUBLIC NOTICE OF DECEMBER 12, 1996

Southwestern Bell Telephone Company ("SWBT") files these Comments in response to the Public Notice, DA 96-2091, released December 12, 1996, which sought responses to several questions and requests for information contained in an attached letter.

SWBT's responses are based on its actual cost of providing service, and not the other models proposed in this proceeding. The Joint Board's Recommended Decision[1] concluded, without even the benefit of a proxy cost model it found acceptable, that forward-looking economic costs "best approximate the costs that would be incurred by an efficient competitor entering that market." Recommended Decision, para. 270. The Joint Board ignored the fact that the only providers of universal service today are incumbent LECs with existing networks, and that those same networks will undoubtedly still be used to provide the bulk of universal service after this proceeding is completed. To provide sufficient support, the actual costs of providing universal service must be used, not hypothetical costs illusorily incurred by imaginary new

[1] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Recommended Decision, FCC 96J-3 (November 8, 1996) and Erratum, FCC 96J-3 (November 19, 1996).

entrants. The Commission cannot simply assume away actual costs, nor dismiss the use of actual costs under an implication of inefficiency.[2]

I. MODEL REVISIONS

1) With regard to the model that you have submitted, list and explain the differences between the current model and the version of the model previously filed in CC Docket 96-45. Explain any plans for additional enhancements to the model. Provide a date certain for when the planned enhancements will be provided to the Commission.

Response: The SWBT actual cost information for Kansas and Texas was originally provided in CC Docket No. 80-286 on October 28, 1994, in connection with SWBT's comments therein. The data was updated to include all five of SWBT's study areas, and was included in the information provided in CC Docket No. 80-286 on October 10, 1995 in connection with SWBT's comments therein (which are incorporated by this reference). No further enhancements of this study is planned.

2) Using the current version of your model, provide study area results for Southwestern Bell - Texas (SWTX). For this study area please provide:

a. Summary statistics: total investment; investment per line; loop investment per line; end office switching investment per line' monthly cost per line; loop monthly cost per line, end office switching monthly cost per line; monthly transport cost per line; total households; total residential lines; total single business lines; total

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[2] Recommended Decision, para. 270 (universal service support "should not be used to offset the costs of inefficient provision of service."). The costs of incumbent LECs are subject to regulatory scrutiny, and there have been no findings based upon any record that the manner in which incumbent LECs fulfill their universal service obligations is inefficient.

business lines; total switched lines; the number of residential lines per density zone, and monthly cost per line per density zone.

Response: The data below represents the summary statistics for SWBT-Texas actual cost study:

• total investment	$12,402,883,741
• investment per line	$1,576.04
• loop investment per line	$1,144.90
• end office switching investment per line	$335.95
• monthly cost per line	$39.98
• loop monthly cost per line	$29.00
• end office switching monthly cost per line	$8.64
• monthly transport cost per line	$2.34
• total households	4,761,073
• total residential lines	5,237,588
• total single business lines	162,826
• total business lines (excludes public)	2,498,405
• total switched lines	7,869,628

- the number of residential lines per density zone

NUMBER OF RESIDENTIAL LINES

DENSITY ZONE					
0 - 5	5 - 200	200 - 600	600 - 850	850 - 2550	Over 2550
40,692	1,351,340	770,807	428,176	1,889,612	756,960

- monthly cost per line per density zone.

MONTHLY COST PER LINE

DENSITY ZONE					
0 - 5	5 - 200	200 - 600	600 - 850	850 - 2550	Over 2550
$86.22	$54.65	$40.58	$43.52	$34.13	$31.00

b. Model results reported on an ARMIS basis all expenses and plant in service rows that are contained in ARMIS report 43-03. If any of the rows cannot be shown separately, provide a list of rows that have been combined and the algorithm used to combine the rows.

Response: See Attachment A, which summarizes SWBT's 1995 actual local exchange costs. Expenses and plant are referenced to ARMIS 43-03 rows.

c. Switching: the total number of switches; and the lines per each switch. Please explain how the cost of the switches was determined, provide all cost input data, and explain how the model determines whether a switch will be a host, remote, or stand alone switch.

Response: See Attachment B, which summarizes the number of wire centers and lines included in the study. For the study, switching costs were calculated for each location or wire center (i.e., locations or wire centers with multiple switches were calculated as a single unit or entity). Costs were determined based on actual booked switching investment. Cost loading factors for maintenance, depreciation, property taxes, and network operations expenses were applied to investment by technology type (e.g., digital, analog). Reserve ratios from book data were applied to calculate net investment. A return and tax factor were applied to net investment to determine return on investment and income taxes. Other support expenses and common costs were

identified based on a general loading factor.

Inasmuch as Attachment B summarizes actual switching cost data, there was no need to make a determination of host, remote or stand-alone switch.

d. Cable and wire statistics: percent underground, buried and aerial; the length, gauge and size of copper cable used; length and size of fiber cable used; fill factors used as inputs; percent distribution fill determined by the number of lines served divided by the total number of distribution lines installed; percent feeder fill determined by the number of lines served divided by the total number of feeder lines installed (when the feeder is fiber, explain what assumptions were used to determine the capacity and use of the fiber; the distribution of households by loop length; and any factors that alter the cost of cable or the installation of cable such as additional costs associated with placing cable in dense urban areas.

Response: The data below represents the cable and wire statistics for SWBT - Texas actual cost study:

• percent underground	24.1%[3]
• percent buried	57.5%[3]
• percent aerial	16.4%
• the length, gauge and size of copper cable used	See Attachment C[4]
• length and size of fiber cable used	See Attachment C[4]
• fill factors used as inputs	Not Applicable
• percent distribution fill determined by the number of lines served divided by the total number of distribution lines installed	30.61%

[3] Shown as a percentage of cable and wire (poles and conduit are excluded).

[4] This information is not available from the actual cost study. Cable length by type is available from the ARMIS 43-08 Report, Table IA, and is provided in Attachment C.

• percent feeder fill determined by the number of lines served divided by the total number of feeder lines installed (when the feeder is fiber, explain what assumptions were used to determine the capacity and use of the fiber	69.53%
• the distribution of households by loop length	Not Available
• any factors that alter the cost of cable or the installation of cable such as additional costs associated with placing cable in dense urban areas.	Not Available

e. Digital carrier: the number of lines served by carrier, the investment in carrier and investment in carrier as a percent of circuit investment.

Response: As of December 1995, SWBT-Texas had approximately 927,716 working digital carrier channels.

f. Depreciation: the model depreciation rate and expected life by type of plant.

Response: Depreciation rates and expected lives are provided on Attachment D.

g. Expenses: Direct network expenses; indirect expenses; and common and overhead expenses. Please explain how the model allocates expenses among these various expense categories.

Response: Expenses are summarized on Attachment A. Expense allocation methods are provided on Attachment E.

h. Capital costs: return on capital; and taxes. Please explain how the percentage return on capital was calculated; and how the tax gross-ups were determined.

Response: SWBT used the current interstate authorized return on investment of 11.25% to determine return on capital. A factor was developed to employ in the study for calculating return and income taxes. Attachment F shows the development of this factor.

i. Support: the aggregate support at $20, $30, and $40 benchmark levels and the number of households by cost category, where cost categories are ranges of cost per month such as greater that or equal to $5 and less than $10.

Response: Aggregate support was determined by SWBT on a wire center-specific basis. Wire centers with local exchange costs above the benchmark were considered eligible for support. SWBT has also indicated the actual support requirement calculated on a wire center-specific basis. The support amounts are summarized as follows:

Benchmark Level	$20	$30	$40	Actual
Support	$1.887B	$1.014B	$.520B	$1.054B

The table on Attachment H summarizes the number of households by category.

II. DOCUMENTATION AND VERIFICATION

3) Explain how the model complies with the criteria for evaluating proxy models set forth in paragraph 277 of the Joint Board's Recommended Decision.

> Para. 277, (1): Technology assumed in the model should be the least-cost, most efficient and reasonable technology for providing the supported services that is currently available for purchase, with the understanding that the models will use the incumbent LECs' wire centers as the center of the loop network for the reasonably foreseeable future.

In SWBT's study the actual wire centers are used to determine the costs of the loop, switching and 'local interoffice' facilities used to provide the definition of universal service. The technology being used to place new facilities is the most efficient and reasonable given existing facilities in portions of the local network.

> Para. 277, (2): Any network function or element, such as loop, switching,

> transport, or signaling, necessary to produce supported services must have an associated cost.

All costs necessary to meet the definition of universal service have been included in the SWBT cost study. This includes all facilities for message loops, local switching connection and usage and any interoffice facilities necessary to make a 'local' call.

> Para. 277, (3): Only forward-looking costs should be included. The costs should not be the embedded cost of the facilities, functions or elements.

The actual costs of the embedded facilities are the most reasonable cost to use to determine the costs necessary to provide for a fund that is 'sufficient' to maintain and promote universal service. SWBT's study identifies the forward-looking costs associated with maintaining the actual embedded network used to provide universal service in accordance with the Commission's rules.

> Para. 277, (4): The model should measure the long-run costs of providing service by including a forward-looking cost of capital and the recovery of capital through economic depreciation expenses. The long run period used should be a period long enough that all costs are treated as variable and avoidable.

The SWBT study uses actual costs (as defined by Commission rules) as the basis for determining the costs of universal service. These costs could be adjusted to reflect more economic depreciation expense and an adjusted cost of capital as appropriate.

> Para. 277, (5): The model should estimate the cost of providing service for all businesses and households within a geographic region. This includes the provision of multi-line business services. Such inclusion allows the models to reflect the economies of scale associated with the provision of these services.

SWBT's cost include the costs of all lines within the geographic area served by SWBT in each of its wire centers.

> Para. 277, (6): A reasonable allocation of joint and common costs should be assigned to the cost of supported services. This allocation will ensure that the forward-looking costs of providing the supported services do not include an unreasonable share of the joint and common costs incurred in the provision of both supported and non-supported services, e.g., multi-line business and toll services.

The SWBT study allocates a portion of joint and common costs to the costs identified as universal service using the principles and methodology embodied in the Commission's rules for separations (Part 36) and access charges (Part 69). These costs are determined in accordance with the Commission's own rules allocating costs to the interstate jurisdiction for ratemaking purposes, and provide a reasonable basis for determining a share of joint and common costs. If fewer joint and common costs were to be allocated to these services, incumbent LECs would in effect be denied recovery of those actual, legitimate costs.

> Para. 277, (7): The model and all underlying data, formulae, computations, and software associated with the model should be available to all interested parties for review and comment. All underlying data should be verifiable, engineering assumptions reasonable, and outputs plausible.

Attachment E provides an overview of methods and calculations used in SWBT's actual cost study.

> Para. 277, (8): The model should include the capability to examine and modify the critical assumptions and engineering principles. These assumptions and principles include, but are not limited to, the cost of capital, depreciation rates, fill factors, input costs, overhead adjustments, retail costs, structure sharing percentages, fiber-copper cross-over points, and terrain factors. The models should also allow for different costs of capital, depreciation, and expenses for different facilities, functions or elements.

SWBT's actual cost study could be modified to account for different costs of capital, factor depreciation rates and overheads. Currently fill factors, fiber-copper cross-over points, and

terrain factors are not inputs since actual facility investments serve as the basis for costs.

4) *In its Recommended Decision, the Joint Board recommended that universal service support be provided for single line businesses in high cost areas. How do the models calculate costs for single line businesses?*

Response: The costs for all lines, residential or business, single or multiline, primary or other, are included in the actual cost study data prepared by SWBT. The cost of all lines is divided by the total number of lines to determine an average cost per line.

5) *List all equations used in the model. For each variable used in an equation, provide the definition of the variable, the default value of the variable, identify the source of the value, and state whether the user can change the value of the variable.*

Response: See Attachment E.

6) *What sources are available to verify that a network derived by a model is capable of delivering telecommunications service consistent with the standard of service adopted in the Joint Board's Recommended Decision?*

Response: In the case of SWBT's actual cost study, this can be done by examining the type and quality of services actually provided. Services provided in Texas by SWBT currently meet or exceed the level of services specified in the Joint Board's Recommended Decision (e.g., single-party service, access to emergency services, access to operator services).

7) *Your model assumes that vendors typically offer a discount off their list prices for switches and digital loop carrier equipment. Purchasers, however, may be prohibited*

from disclosing the size of such discounts. Given the inability to provide such information, what alternatives are available to acquire such information?

Response: The actual cost approach used by SWBT does not require that individual companies provide such information. Any vendor discounts are reflected in the investment reflected on the carrier's books and therefore included in the study amount.

III. OUTSIDE PLANT

8) Describe the specific manner in which network design parameters (cable gauge, capacitance, loading, resistance, attenuation, cable fill, and concentrator or repeater placement) are used in the development of the models.

Response: The SWBT study does not rely directly on the individual network design parameters to develop the costs of facilities.

9) What service capability will local loops have if built to the specifications used in the model? Will all local loops provide (1) full time (non-traffic sensitive and non-party line) service between the customer and the serving wire center and/or (2) digital subscriber line (DSL) capability as described in "BOC Notes on the LEC Networks - 1994?" Will all local loops be capable of providing (1) basic rate ISDN service (2B+D) and/or (2) full duplex service at the DS1 level (commonly called T1) of 1.544 Mbps?

Response: All of the loops currently in service for SWBT-Texas have the capability to provide full time (non-traffic sensitive and non-party line) service between the customer and the serving wire center. Most of the loops have the capability to provide basic rate ISDN service (2B-D), DSL, and full-duplex DS1. SWBT's 1995 ARMIS 43-07 shows that 5,932,000 lines (71.9% of total lines) have "Potential Access to ISDN" (e.g., available on request) and 89,060 were

equipped with BRI interfaces.[5]

10) *The Hatfield and BCM2 models differ with regard to the sharing of structure investments, the mix of aerial, underground, and buried cable, and the relationship between the cost of installation and the terrain. For example, the Hatfield model shares structure costs among three utilities, while the BCM2 model assigns 100% of the costs of structures to the telephone company. The Hatfield model assumes that cable will be extended by 20% when encountering difficult terrain rather than using terrain specific cost characteristics , while the BCM2 uses terrain specific cost characteristics. The BCM2, however, aggregates the terrain specific costs by activities, such as trenching in hard rock or restoring asphalt. Please provide documentation that supports the assumptions used in the models. Alternatively, please provide documentation that refutes these assumptions.*

Response: The approach taken in the Hatfield model is unrealistic and not representative of typical LEC or other carrier operations. The poles, conduit and buried cable trenching are normally done by each company separately. There are a number of reasons why this Hatfield assumption is invalid. First, it is impractical to place power cable and telecommunications cable in close proximity to one another because of electrical fields created by power cables. Those fields could cause "hum" on voice communication and make these facilities unusable for data transmission, such as personal computer\Internet use.

Moreover, even in the placement of facilities to new real estate developments, the intercompany coordination necessary to 'share' the cost of placement among utilities (including cable television companies) is not readily accomplished because of the timing and availability of

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[5] See ARMIS 43-07 for SWBT-Texas filed June 28, 1996, for the year January 1995 through December 1995, Lines 0300, 0301, and 0311.

construction crews to meet individual time frames, let alone combined time frames. Typically power facilities are placed as soon as lot lines and road/sidewalk easements are known. Telephone cable is generally placed as the houses near completion, with cable TV facilities being laid after houses are occupied (which may not occur many months or even years later). Having the facilities in its own structures also allows each company to perform maintenance/repair of its own facility without undue risk of potential disruption of another company's service as a result of damage to a common structure.

The more traditional way to deal with the shared use of facilities is through rental agreements, such as pole attachment arrangements and conduit rentals. In these arrangements, each company would install its own facilities and structure or they would place their facility in/on structures owned by another utility. The utility using another company's structure would pay the structure owner rent commensurate with the structure used. These arrangements are common for poles, less common for conduit, and generally impractical for trenching.

IV. SWITCHING

11) The models, at least in part, rely on Bellcore's Local Exchange Routing Guide, which may not include all wire centers. Do the models reflect all wire center locations? Should the models reflect all wire center locations? Do the models include host-remote configurations when it is efficient to do so?

Response: SWBT-Texas has approximately 800 switching entities identified in the Local Exchange Routing Guide (LERG). The costs of those switches are reflected in SWBT's actual cost study. That cost study identifies approximately 500 individual geographic locations for

switching, which correspond to the number of wire centers identified in the SWBT study. The difference is primarily explained by the fact that the LERG identifies multiple switching entities as having the same location. The models should, like SWBT's actual cost study, reflect all wire center locations. SWBT's actual cost study includes host-remote locations in service in 1995.

V. DEMAND FOR LINES

12) *Do the models accurately estimate the total demand for lines in a particular geographic area, such as a Census block group, wire center, or service area? What types of lines (e.g. residential, single-line business, multiline business, and special access) are, or should be, included in a model's estimated demand for lines? Can the model estimate the incremental cost of adding households to the network?*

Response: See Attachment G for a comparison of the number of lines between SWBT, Hatfield and BCM2 by wire center. In total, the Hatfield Model includes 163,015 or 2.1% more lines than SWBT actual, and BCM2 includes 286,646 or 3.6% more lines than SWBT actual. Part of this difference is explained by the fact that SWBT has only counted billed access lines, and has reflected average 1995 lines in service. Both Hatfield and BCM2 have created lines for each household in Census Block Groups ("CBGs") assigned to SWBT wire centers. In fact, in 49.7% of the individual wire centers, the total lines calculated by Hatfield are different by greater than 10% when compared to SWBT actual data; in 52.1% of the individual wire centers, the total switched lines calculated by BCM2 are different by more than 10% when compared to SWBT data.

All types of switched lines (residential, single-line and multiline business) should be

included in a model's estimated demand.

SWBT's actual cost studies provide an estimate of the cost of adding lines by using the estimated cost of the existing lines associated with each wire center.

VI. EXPENSES

13) All of the models appear to base repair and maintenance and retail costs on historical costs. In some cases this is done based on a historical relationship between investment and expenses as reported in ARMIS; in other cases they are based on per line amounts. For these categories of expense, to what extent are these historical expenses a reasonable approximation of forward looking expenses? How are the gains in productivity due to technological advances and increased competitive pressures captured by the model's estimate of repair and maintenance and retail costs?

Response: The historical relationships between investment and related repair and maintenance expense are the best available source for estimating the future costs of repair and maintenance. Use of the most current information provides a reasonable estimate of the costs incurred to perform those functions. The use of the most current expense levels reflect any productivity gains that have been realized. Any estimate of gains due to unknown technological advances or competitive pressures would be highly speculative and unreasonable to incorporate in a model.

14) Do the retail costs - the cost of bill production, billing inquiries, sales and advertising - developed for your model reflect the costs associated with the services included in the revenue benchmark included in the Recommended Decision? What share of your retail costs are associated with bill production and billing inquiries? How are retail costs developed to capture the costs of services included in the revenue benchmark while excluding retail costs associated with service not included in the benchmark, such as intraLATA toll.

Response: Since the revenue benchmark in the Recommended Decision is not specifically defined,[6] it is not possible to state that all appropriate costs are included. All of the costs necessary to support the definition of universal service as provided in paragraphs 65-70 of the Recommended Decision are included in SWBT's cost study. These costs included the loop from the customer's premise to the local switching office, the portion of the local switch used to provide local service (which includes any non-toll related extended area service), and any interoffice facility cost used in connection with the provision of local service. The included costs also provide for access to directory assistance, operator service, emergency services, access to the public switched network, and access to interexchange services. ("Access" to the public switched network and to interexchange services means that facilities are provided to make a connection to the public switched network/interexchange service; it does not include any usage of the network for toll calls. These already included facilities are used to provide access to directory assistance, operator service, emergency services, the public switched network, and interexchange services.)

15) *How is the depreciation expense treated in the current version of the model? In particular, describe the set of plant categories considered and the asset lives or economic depreciation rates associated with each. Justify, if possible, the default choices made in the model. Describe the extent to which the model has sufficient built in flexibility to*

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[6] The Recommended Decision at paragraph 310 defines the revenue benchmark as "Revenues-per-line are the sum of the revenue generated by local, access services and others as found appropriate . . ." The "as found appropriate" phrase is not explained further. It is also inconsistent to establish the definition of universal service as a set of service that excludes access and other services, but then include revenue from those services in a benchmark used to determine necessary support.

accurately reflect differing decisions by the FCC and state commissions regarding depreciation rates? Are there enough distinct categories of plant to accurately model forward looking depreciation expense? For example, should asset lives for conduit necessarily be the same as cable lives?

Response: The depreciation costs included in SWBT's study are based on the regulatorily-prescribed depreciation rates. The plant categories are those included in the depreciation prescription process. The latest prescribed depreciation information for SWBT-Texas is set forth on Attachment E. SWBT's study does not have the spreadsheet capability to recalculate the costs with different depreciation assumptions. This could be done, however, by analyzing the difference between the prescribed depreciation used in SWBT's study and the changes that would be proposed. Asset lives for different categories of plant should be reflective of that plant and should not necessarily be the same.

16) *The BCM2 include 75% of $133.39 per year or $8.34 per month per line to reflect non-plant related expenses such as marketing and customer operations. The adjustable 10% overhead figure in the Hatfield model is the only similar component. Should costs for customer and corporate operations be a fixed amount per line? If not, what should be the basis for allocating these costs? To what extent should basic local service be charged with marketing or customer operations expenses?*

Response: Cost for customer operations and corporate operations can be assigned to basic local service based on a per-line estimate, or on the basis of direct investment. The important factor to consider is that the assignment of costs reflect an appropriate amount of these joint and common costs associated with basic local service. It is appropriate for basic local service to bear a portion of these costs. Customer operations expenses are certainly necessary to provide for the customer

interfaces associated with providing basic local service in terms of ordering, billing inquiry, bill rendering, bill payment, and collection. Similarly, given that advertising is one of the requirements of being an eligible carrier, marketing expenses should also be included. Section 214(e)(1)(B).

VII. USE OF PROXY MODELS FOR MULTIPLE OBJECTIVES

17) Can a single proxy model be used to estimate the cost of the local exchange network for universal service support and for other objectives such as the pricing of network elements or access reform? Does a network specifically dedicated to universal service objectives differ in a significant way from the summation of network elements envisioned in Section 251? Are there insurmountable problems in the treatment of common costs in the different uses of the model? Describe specifically the modifications, if any, that would be required if a single model is used for multiple objectives.

Response: A single proxy model should not be used to estimate the cost of the local exchange network for universal service support and for the pricing of network elements or access reform. Universal service does not, for example, include elements that would be included in access reform. While universal service includes access to interexchange services, footnote 193 of the Recommended Decision excludes any interstate usage costs as being eligible for support. It would be problematic to use a proxy cost model for these two purposes when the objectives appear to be conflicting.

The identification of incremental costs may be appropriate for establishing a price floor in a competitive market, but such costs are not appropriate for ensuring full recovery or "sufficient" support for the costs incurred in providing universal service.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

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Southwestern Bell Telephone Company – Texas
Summary of 1998 Local Exchange Annual Revenues and Costs

LN	DESCRIPTION	ARMIS 43-03 LINE REFERENCE	LOCAL EXCHANGE SERVICES LOOP	TRANSPORT	SWITCH	TOTAL
	Revenues	510+5010+5050+5060+5069	N/A	N/A	N/A	2,891,088,847
		+5081+5230+5260+5300				
	Direct Facility Investment					
1	COE	2210+2230	1,334,734,870	407,246,340	2,233,376,173	3,975,357,383
2	C&WF	2410	6,247,710,991	246,813,043	NA	6,494,524,034
3	IOT	2310	255,390,000	NA	NA	255,390,000
4	Operator Systems	2220	NA	NA	61,335,256	61,335,256
5	*Total Direct Facility Investment (L1..L4)*	N/A	*7,837,835,861*	*654,059,383*	*2,294,711,429*	*10,786,606,673*
6	COE Reserves	3100	600,418,778	168,561,517	1,063,809,330	1,832,789,625
7	C&WF Reserves	3100	3,094,073,547	123,687,180	NA	3,217,760,727
8	IOT Reserves	3100	170,657,000	NA	NA	170,657,000
9	Oper Sys Reserves	3100	NA	NA	32,125,406	32,125,406
10	COE Deferred Taxes	4340	111,287,524	37,987,745	308,036,175	457,311,444
11	C&WF Deferred Taxes	4340	369,370,921	14,994,023	NA	384,364,944
12	IOT Deferred Taxes	4340	16,606,000	NA	NA	16,606,000
13	Oper Sys Deferred Taxes	4340	NA	NA	3,804,339	3,804,339
14	*Total Direct Facility Reserves (L6..L13)*	N/A	*4,362,413,770*	*345,230,465*	*1,407,775,250*	*6,115,419,486*
15	*Net Investment (L5-L14)*	N/A	*3,475,422,091*	*308,828,918*	*886,936,179*	*4,671,187,187*
16	*Direct Return and Tax*	N/A	*524,826,965*	*46,636,564*	*133,937,119*	*705,400,648*
	Direct Facility Expense					
17	COE Switching and Transmission	6210+6230	19,510,249	9,487,243	126,588,646	155,586,138
18	Cable and Wire Facilities	6410	325,981,078	12,798,977	NA	338,780,055
19	IOT Maint.	6310	87,377,000	NA	NA	87,377,000
20	Operator Services	6220	NA	NA	4,031,039	4,031,039
21	COE Depreciation	6561	118,098,904	33,826,056	161,444,116	313,369,076
22	C&WF Depreciation	6561	341,685,070	13,617,396	NA	355,302,466
23	IOT Depreciation	6561	24,313,383	NA	NA	24,313,383
24	OS Depreciation	6561	NA	NA	4,845,485	4,845,485
25	Network Operations	6530	184,980,764	15,337,397	54,157,484	254,475,646
26	Property Tax	7240	91,467,544	7,583,892	26,779,282	125,830,719
27	*Total Direct Expense (L17..L26)*	N/A	*1,193,413,993*	*92,650,961*	*377,846,053*	*1,663,911,007*
28	*Total Direct Cost (L16+L27)*	N/A	*1,718,240,958*	*139,287,525*	*511,783,172*	*2,369,311,656*
	Customer Service Related Expenses					
29	Customer Service Exp.	6623	198,826,085	16,117,642	59,220,940	274,164,667
30	Operator Services	6621+6622	76,921,925	6,235,601	22,911,424	106,068,949
31	*Total Customer Services Expenses (L29+L30)*	N/A	*275,748,009*	*22,353,243*	*82,132,363*	*380,233,616*
	Support Investments					
32	Gen. Sup. Fac. Inv.	2110	1,165,378,958	94,470,307	347,111,583	1,606,960,848
33	Other Investments	2680+2690	6,756,187	547,684	2,012,350	9,316,220
34	Gen. Sup.-Def. Taxes	4340	112,572,606	9,125,588	33,530,085	155,228,279
35	GSF Reserves	3100	404,702,511	32,806,814	120,541,845	558,051,170
36	Other Reserves	3400+3500+3600	4,932,143	399,819	1,469,054	6,801,016
37	*Net Investment (L32+L33-L34-L35-L36)*	N/A	*649,927,884*	*52,685,769*	*193,582,950*	*896,196,603*
38	*Support Investment Return and Tax*	N/A	*98,146,260*	*7,956,131*	*29,233,155*	*135,335,545*
	Network and Service Support Expenses					
39	Depreciation	6561+6562	61,904,764	5,018,249	18,438,518	85,361,531
40	Amortization	6563+6564	518,079	43,073	152,020	713,172
41	General and Netork Support Expenses	6110+6120	147,068,029	11,921,926	43,804,649	202,794,605
42	Non-Plant Specific	6510	181,172	14,687	53,963	249,821
43	Other Taxes	7240	146,522,350	11,877,691	43,642,117	202,042,158
44	*Total Support Expenses (L39..L43)*	N/A	*356,194,394*	*28,875,626*	*106,091,267*	*491,161,287*
	Common Costs					
45	Marketing	6610	49,475,972	4,010,721	14,736,565	68,223,258
46	Corporate	6710+6720	240,523,985	19,497,842	71,640,783	331,662,611
47	*Total Common Costs (L45+L46)*	N/A	*289,999,957*	*23,508,563*	*86,377,348*	*399,885,869*
48	**Total Costs** (L28+L31+L38+L44+L47)	N/A	2,738,329,578	221,981,089	815,617,306	3,775,927,973
49	**Support Requirement** (L1-L48)	N/A	NA	NA	NA	(884,839,126)
50	*Total Investment (L5+L32+L33)*	N/A	9,009,971,006	749,077,374	2,643,835,363	12,402,883,742